

Message Text

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ARA - WGBOWDLER

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FM SECSTATE WASHDC

TO AMEMBASSY LA PAZ PRIORITY

C O N F I D E N T I A L STATE 194164

LIMDIS

EO: 11652, GDS

TAGS: ETRD, BL

SUBJECT: COTTON CONTRACTS

REF: LA PAZ 5816

1. DEPARTMENT DISTURBED BY IMPLICATION PARA 3 REFTEL. IF EMBASSY SUGGESTED TO GOB THAT COTTON CONTRACT PROBLEM COULD BE RESOLVED BY RENEGOTIATION OF PRICE, THEN FUNDAMENTAL USG AND COOK POSITION ON SANCTITY OF CONTRACT HAS BEEN COMPROMISED.

FURTHERMORE, THERE IS NO ASSURANCE - AND THE EMBASSY HAS BEEN GIVEN NONE BY THE DEPARTMENT - THAT COOK INDUSTRIES
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COULD, IN TURN, RENEGOTIATE ITS ONWARD CONTRACTS WITH

ITS JAPANESE BUYERS. INDEED, THERE IS EVERY INDICATION SUCH RENEGOTIATION WOULD BE IMPOSSIBLE WITHOUT COOK SUFFERING SUBSTANTIAL FINANCIAL LOSS.

2. FYI. TO GIVE EMBASSY SOME IDEA OF SUMS INVOLVED. WASHINGTON REPRESENTATIVE COOK HAS PROVIDED FOLLOWING FIGURES: ORIGINAL 1973 COTTON CONTRACTS CALLED FOR DELIVERY 45,500 BALES. DUE SHORTFALL BOLIVIAN HARVEST, ORIGINAL FIGURE REDUCED TO 31,900 BALES OF WHICH 7190 HAVE

BEEN DELIVERED AT CONTRACT PRICE. BALANCE OF 24,710 BALES VALUED AT \$4,151,280 AT 35 CENT AVERAGE CONTRACT PRICE. IF COOK MUST PAY 56 CENT PRICE DEMANDED BY GOB DECREE, COOK WILL LOSE \$2,253,552. IF GOB REFUSES DELIVER AT ALL OR, IN INTERIM, SELLS COOK' COTTON ELSEWHERE AS RUMORED ON AT LEAST TWO OCCASIONS, THEN COOK WOULD BE FORCED TO BUY ON WORLD MARKET AT CURRENT WORLD PRICES (AS OF COB SEPTEMBER 27 SPOT PRICE WAS 98 CENTS PER POUND). THIS WOULD MEAN COOK WOULD LOSE \$7,413,000 PLUS POSSIBLE PENALTIES. END FYI.

3. WHILE IT MIGHT COME DOWN, IN THE END, TO RENEGOTIATIONS ON THE PRICE, IT SHOULD NOT RPT NOT BE THE USG WHICH PROPOSES SUCH STEPS INASMUCH AS COOK'S CURRENT POSITION RE SANCTITY OF CONTRACT IS QUITE PROPER AND CONSISTENT WITH UNIVERSALLY ACCEPTED NORMS OF INTERNATIONAL TRADE, A POSITION WHICH THE USG HAS STEADFASTLY SUPPORTED.

4. ACCORDINGLY, THE EMBASSY SHOULD MAKE IT CLEAR TO APPROPRIATE GOB OFFICIALS THAT USG CANNOT COMPROMISE ON THE PRINCIPLE OF THE SANCTITY OF CONTRACTS LAWFULLY ENTERED INTO IN GOOD FAITH BY COOK INDUSTRIES. THE USG POSITION REMAINS AS EARLIER STATED (SEE DEPTTEL 164916), AND IT IS THE USG VIEW THAT THE GOB IS BOUND TO HONOR THOSE CONTRACTS.

5. EMBASSY IS REQUESTED TO INFORM DEPARTMENT BY CABLE WHEN PARA 4 ABOVE CONVEYED TO GOB. KISSINGER
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